Summary of FY13 International Affairs Budget Request

On February 13, the President sent a $3.8 trillion FY13 budget request to Capitol Hill, 0.2% above current levels. Included in the request was a total of $56.2 billion for International Affairs -- $48 billion in base funding and $8.2 billion for Overseas Contingency Operations (OCO). This total request represents a 2.4% ($1.3 billion) increase over enacted FY12 levels.

FY10 Enacted	FY11 Enacted	FY12 Enacted	FY13 Request
$56.4 billion ($5.1b OCO)	$50.1 billion ($2.0b OCO)	$54.94 billion ($11.2b OCO)	$56.2 billion ($8.2b OCO)

To understand this year's budget request, it is important to understand the OCO account request. For nearly a decade, the Defense Department requested extra funds not subject to caps for extraordinary expenses in the Frontline States called the Overseas Contingency Operations (OCO). For the first time, the State Department followed DOD and requested OCO funds in FY12 to cover the civilian needs of the Frontline States. In the final FY12 deal, Congress expanded the scope of OCO, going beyond extraordinary expenses in the Frontline States to fund other global contingencies (such as the famine in the Horn of Africa, terrorist threats in Africa, and the Arab Spring) that traditionally would be funded under base programming or supplemental requests. For FY13, the Administration did not adopt the expanded definition of OCO and instead requested a "traditional" OCO restricted to the Frontline States at the same level as last year. As a result, the $8.2 billion OCO is 26% below current levels, while the base funding increased by 9.8%.

Two New Initiatives:

While the majority of the request is flat or a small decrease, there are two new initiatives:

Response to Arab Spring: Middle East and North Africa Incentive Fund (MENA-IF): A new $770 million contingency fund to respond to the immediate and longer-term needs following last year's Arab Spring. The vast majority of MENA-IF would be new funding, but $70 million comes from two existing programs previously funded out of the Economic Support Fund—the Middle East Partnership Initiative (MEPI) and the Middle East Regional program, which are funded at about the same levels as for FY12. While details are still not available, the Administration outlines short-term activities as snap election aid, humanitarian needs, human rights investigations, and security sector support. Long-term activities include incentivizing government reforms; debt relief and investment support; enterprise funds; private sector development; and transparency and human rights support.

Sudan Debt Relief: $250 million to forgive $2.4 billion currently owed by Sudan, provided Sudan is eligible for Heavily Indebted Poor Country (HIPC) status and meets certain legislative conditions. The Administration also asks for transfer authority to support multilateral aid commitments should Sudan not qualify for debt relief.

Funding Highlights:

Many of the programs remain relatively flat: **Millennium Challenge Corporation (MCC)** at $898 million, includes second compacts for Benin, Ghana, El Salvador; **Peace Corps** at $375 million; **Feed the Future** at $1.2 billion, includes sufficient funding to meet $475 million pledge to Global Agriculture and Food Security Program (GAFSP) as well as $3.5 billion L'Aquila pledge; **Multilateral Development Banks** to meet commitments to capital increases at $2.6 billion; and **Multilateral Organizations** are flat funded for assessed dues to UN at $1.6 billion, but 6.3% decrease in voluntary contributions to international organizations

Notable Increases:

- International Narcotics and Law Enforcement: up 22.6% ($462 million).
- Overseas Private Investment Corporation (OPIC): the self-financing entity plans to increase direct loans and loan guarantees from about $3.1 billion to $4 billion.
- Trade and Development Agency (USTDA): up 16% ($8 million).

Notable Decreases:

- Aid to Europe, Eurasia, and Central Asia: down 18% ($113 million), eliminates region-specific account, and folds funding to the region into other accounts.
- Global Health: $7.85 billion, down 3.8% ($314 million). Increases funding for the Global Fund to Fight AIDS, Tuberculosis and Malaria and GAVI Alliance, but makes modest cuts to most other Global Health accounts, including HIV/AIDS programs.
- Humanitarian Assistance: down 6.9% ($308 million), including a cut to refugee funding of 13.3% ($250 million). Some funds under the MENA-IF could be used for humanitarian activities in that region, thereby reducing the impact of these cuts.
- National Endowment for Democracy: down 12% ($14 million), but some of this may be recovered through democracy programs funded by MENA-IF.

Other Items of Interest:

Global Health Shifts. The Global Health portion of the International Affairs Budget is likely to be one of the most closely scrutinized parts of the proposal, with many questions raised over the rationale for reducing spending and shifting resources among various activities. Although the $7.85 billion request remains the largest foreign aid account in FY13, it is 3.8% smaller than current levels. Nevertheless, the Administration believes the request, including increases for the Global Fund to Fight AIDS, TB, and Malaria (Global Fund) and the GAVI Alliance, will be sufficient to maintain global health commitments and achieve its recent pledge to have six million people on AIDS treatment by the end of the year and to pursue its ultimate goal of an AIDS-free generation.

Maintains Operations and Reform Efforts. The State Department request includes an 8.2% increase to base funding for Diplomatic and Consular Programs and continues the "Diplomacy 3.0" initiative to implement the QDDR. USAID operating expenses are flat from FY12 ($1.35 billion), with a focus on *USAID Forward* reforms – doubling monitoring and evaluation budget, increasing science and technology budget, and hiring 16 new procurement officers.

Country Specifics. **Afghanistan** receives a 30% increase in funding over FY12, scaling up diplomatic capacity to prepare for U.S. military withdrawal. The $2.4 billion request for **Pakistan** returns a significant portion of funding from OCO to base funding compared to FY12, and represents the first year in which the Administration has not requested the full $1.5 billion in civilian assistance authorized under the 2009 Kerry-Lugar-Berman bill. After a significant increase in FY12 to support the civilian surge following the end of military operations, the FY13 request for **Iraq** falls by 9%. The vast majority (about 85%) of assistance to Iraq supports the Police Development Program and military training programs. Base funding for **Egypt** is flat compared to FY12, but recent raids on democracy programs (NDI, IRI, and Freedom House) have led to legislative conditions being placed on security assistance to Egypt. It is also possible that Egypt could receive additional funding from MENA-IF.

Next Steps:

Action on the FY13 budget resolution will get underway in the House in mid-March, with the goal of completing floor action on the measure by the end of March. Similar to last year, the House's FY13 budget resolution is expected to call for major reductions in both discretionary and mandatory spending, including the International Affairs Budget. In addition, **Budget Committee Chairman Paul Ryan (R-WI)** may opt to adopt a lower top-line 302(a) discretionary spending level than the $1.047 trillion agreed to as part of last August's Budget Control Act.

In the Senate, **Majority Leader Harry Reid (D-NV)** has made clear that he has no intention of bringing an FY13 budget resolution to the floor, in part because a discretionary spending cap (302a) is already in place. Nonetheless, **Budget Committee Chairman Kent Conrad (D-ND)** is still expressing his hope to report a budget resolution out of Committee and to forge a bipartisan deal to reduce the debt. Appropriators in both the House and Senate will move expeditiously this year to advance as many FY13 bills as possible before the August recess. The all-important 302(b) allocations are anticipated by early April, with Subcommittee and Committee markups of those measures to follow later in April and May. It remains to be seen if many bills will ever make it to the floor for consideration, particularly in the Senate. Congress is likely to adopt an FY13 Continuing Resolution in September that would last until after the November election, thus delaying any major decisions on FY13 appropriations until the post-election lame duck session or the new 113th Congress in January.